



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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May 12, 2010

TO: Supervisor Gloria Molina, Chair
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **PACIFIC LODGE YOUTH SERVICES CONTRACT REVIEW – A
DEPARTMENT OF MENTAL HEALTH SERVICE PROVIDER**

We completed a program and fiscal contract compliance review of Pacific Lodge Youth Services (Pacific Lodge or Agency), a Department of Mental Health (DMH) service provider.

Background

DMH contracts with Pacific Lodge, a private non-profit community-based organization that provides services to clients in Service Planning Areas 2. Services include interviewing program clients, assessing their mental health needs and developing and implementing a treatment plan. The Agency's headquarters is located in the Third District.

DMH pays Pacific Lodge on a cost-reimbursement basis between \$1.78 and \$4.26 per minute of staff time (\$106.80 to \$255.60 per hour) for services or approximately \$1.5 million for Fiscal Year (FY) 2008-09.

Purpose/Methodology

The purpose of our review was to determine whether Pacific Lodge complied with its contract terms and appropriately accounted for and spent DMH program funds providing

the services outlined in their County contract. We also evaluated the adequacy of the Agency's accounting records, internal controls and compliance with federal, State and County guidelines. In addition, we interviewed Agency staff.

Results of Review

Pacific Lodge maintained documentation to support the mental health services billed and staff assigned to the County contract possessed the required qualifications. However, Pacific Lodge charged DMH \$5,129 in questioned costs and did not always comply with other County contract requirements. Specifically, Pacific Lodge charged DMH for:

- Donated items totaling \$2,950. Agency management indicated that board members donated the items for fundraising activities. The County contract does not allow Agencies to charge donated items as program expenditures.
- Fundraising costs and investment fees totaling \$1,502. Agency management indicated that the fundraising and investment costs were charged to the DMH program in error.
- Telephone expenditures related to the prior fiscal year totaling \$677. The County contract does not allow Agencies to charge expenditures incurred outside the agreement period.

In addition, Pacific Lodge did not complete some elements of the Assessments and the Client Care Plans in accordance with the County contract requirements and did not properly segregate their cash-handling functions.

We have attached the details of our review along with recommendations for corrective action.

Review of Report

We discussed the results of our review with Pacific Lodge and DMH. In their attached response, the Agency concurred with our recommendations and agreed to reduce their FY 2008-09 Cost Report by \$5,129.

Board of Supervisors
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We thank Pacific Lodge management for their cooperation and assistance during this review. Please call me if you have any questions or your staff may contact Don Chadwick at (213) 253-0301.

WLW:MMO:JET:DC:EB

Attachment

c: William T Fujioka, Chief Executive Officer
Dr. Marvin J. Southard, Director, Department of Mental Health
Richard Testwuide, Chair, Board of Directors, Pacific Lodge Youth Services
Lisa Alegria, Executive Director, Pacific Lodge Youth Services
Public Information Office
Audit Committee

**DEPARTMENT OF MENTAL HEALTH
PACIFIC LODGE YOUTH SERVICES
FISCAL YEAR 2008-09**

BILLED SERVICES

Objective

Determine whether Pacific Lodge Youth Services (Pacific Lodge or Agency) provided the services billed in accordance with their contract with the Department of Mental Health (DMH).

Verification

We selected 29 billings totaling 1,851 minutes from 77,052 service minutes of approved Medi-Cal billings from March and April 2009. We reviewed the Assessments, Client Care Plans and Progress Notes maintained in the clients' charts for the selected billings. The 1,851 minutes represent services provided to 20 program participants.

Results

Pacific Lodge maintained documentation to support the billed service minutes. However, the Agency did not complete some elements of the Assessments and the Client Care Plans in accordance with the County contract requirements.

Assessments

The Agency did not adequately describe the symptoms and behaviors exhibited by the client to support the Agency's clinical diagnosis for two (10%) of the 20 clients sampled on their Assessments. An Assessment is a diagnostic tool used to document the clinical evaluation of each client and establish the client's mental health treatment needs. The County contract requires Agencies to follow the Diagnostic and Statistical Manual of Mental Disorders (DSM) when diagnosing clients.

Client Care Plans

Pacific Lodge did not complete the Client Care Plans for five (25%) of the 20 clients sampled in accordance with the County contract. Specifically, the Client Care Plans did not contain specific goals.

Recommendation

1. **Pacific Lodge management ensure that Assessments and Client Care Plans are completed in accordance with the County contract.**

STAFFING LEVELS

Objective

Determine whether the Agency maintained the appropriate staffing ratios for applicable services.

We did not perform test work in this section as the Agency did not provide services that required staffing ratios for this particular program.

Recommendation

None.

STAFFING QUALIFICATIONS

Objective

Determine whether Pacific Lodge's treatment staff possessed the required qualifications to provide the services.

Verification

We reviewed the California Board of Behavioral Sciences' website and/or the personnel files for five of the six Pacific Lodge treatment staff who provided services to DMH clients during March and April 2009.

Results

Each employee in our sample possessed the qualifications required to deliver the services billed.

Recommendation

None.

CASH/REVENUE

Objective

Determine whether cash receipts and revenue were properly recorded in the Agency's financial records and deposited timely in their bank account. In addition, determine whether the Agency maintained adequate controls over cash and other liquid assets.

Verification

We interviewed Pacific Lodge management and reviewed the Agency's financial records. We also reviewed their March 2009 bank reconciliations for two bank accounts.

Results

The Agency properly deposited cash receipts in a timely manner. However, Pacific Lodge did not properly segregate their cash handling functions. Specifically, an accountant received and deposited the County checks and reconciled their bank statements. In addition, the preparer and reviewer did not sign or date their bank reconciliations.

Recommendations

Pacific Lodge management ensure:

- 2. Proper segregation of duties over cash handling procedures.**
- 3. The preparer and reviewer sign and date the bank reconciliations.**

COST ALLOCATION PLAN**Objective**

Determine whether Pacific Lodge's Cost Allocation Plan was prepared in compliance with the County contract and the Agency used the Plan to appropriately allocate shared program expenditures.

Verification

We reviewed the Agency's Cost Allocation Plan and selected a sample of expenditures to ensure that expenditures were appropriately allocated to the Agency's programs.

Results

Pacific Lodge prepared their Cost Allocation Plan in compliance with the County contract and appropriately allocated their shared expenditures.

Recommendation

None.

EXPENDITURES

Objective

Determine whether program expenditures were allowable under the County contract, properly documented and accurately billed.

Verification

We interviewed Agency personnel and reviewed financial records and documentation to support 31 expenditures totaling \$51,927 between July 2008 and February 2009.

Results

Pacific Lodge charged DMH \$5,129 in unallowable expenditures during Fiscal Year (FY) 2008-09. Specifically, Pacific Lodge charged DMH for:

- Donated items totaling \$2,950. Agency management indicated that board members donated the items for fundraising activities. The County contract does not allow Agencies to charge donated items as program expenditures.
- Fundraising costs and investment fees totaling \$1,502. Agency management indicated that the fundraising and investment costs were charged to the DMH program in error.
- Telephone expenditures related to the prior fiscal year totaling \$677. The County contract does not allow Agencies to charge expenditures incurred outside the agreement period.

During the contract year, DMH pays Pacific Lodge a negotiated rate for their cost-reimbursement contract. At the end of the contract year, if the Agency's revenues exceed the actual expenditures on their Cost Report, the Agency must repay DMH for the excess amount received.

Recommendations

Pacific Lodge management:

4. **Revise the FY 2008-09 Cost Report to reduce reported program expenditures by \$5,129 and repay DMH for any excess amounts received.**
5. **Ensure that only allowable program expenditures are charged to the DMH program.**

FIXED ASSETS**Objective**

Determine whether fixed asset expenditures charged to the DMH program were allowable, properly documented and accurately billed.

Verification

We interviewed Agency personnel and reviewed the Agency's financial records related to fixed assets. In addition, we reviewed nine items with depreciation costs totaling \$5,382.

Results

The fixed asset expenditures charged to DMH were allowable, properly documented and accurately billed.

Recommendation

None.

PAYROLL AND PERSONNEL**Objective**

Determine whether payroll expenditures were appropriately charged to the DMH program. In addition, determine whether personnel files were maintained as required.

Verification

We traced the payroll expenditures totaling \$44,931 for 19 employees to the payroll records and time reports for the pay period ending March 31, 2009. We also interviewed nine employees and reviewed personnel files for the nineteen employees.

Results

Pacific Lodge's payroll expenditures were appropriately charged to the DMH program. In addition, the Agency maintained their personnel files as required.

Recommendation

None.

COST REPORT

Objective

Determine whether Pacific Lodge's FY 2007-08 Cost Report reconciled to the Agency's accounting records.

Verification

We traced the Agency's FY 2007-08 Cost Report to the Agency's accounting records.

Results

The total Agency expenditures listed on Pacific Lodge's FY 2007-08 Cost Report reconciled to the Agency's accounting records.

Recommendation

None.



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March 17, 2010

Ms. Wendy L. Watanabe
Auditor-Controller
County of Los Angeles

Subject: PACIFIC LODGE YOUTH SERVICES
A Department of Mental Health Service Provider
Contract Review

Dear Ms. Watanabe,

We appreciate the program and fiscal contract compliance review performed earlier this year and are in receipt of the draft report issued by your staff. Your staff was very professional and knowledgeable and we welcome their recommendations. Following are our comments.

Recommendations:

1. **BILLED SERVICES:** Pacific Lodge management ensure that Assessments and Client Care Plans are completed in accordance with the County contract. **Response:** **ASSESSMENTS:** All Pacific Lodge Therapists are trained in how to properly complete Initial Assessments upon hire and receive on-going training throughout the year. All therapists who currently complete Initial Assessments have at least a year of experience in completing the Initial Assessments, most having more than 3 years. Under the direct supervision of the Clinical Supervisor, Therapists are trained and expected to: 1) Complete their initial assessments within the first month that the client is in placement at Pacific Lodge, which usually extends over 3 to 5 sessions and may include the client's parent(s); 2) Document their initial diagnostic impressions in the first Assessment note; 3) Submit the Initial Assessment form to the Clinical Supervisor for review to assure that the information is complete, supports the diagnosis given, and substantiates medical necessity. The diagnosis is always based on the Diagnostic and Statistical Manual of Mental Disorders (DSM) and the assessment adequately describes the symptoms and behaviors exhibited by the client to support the clinical diagnosis.

CLIENT CARE PLANS: As with the Assessment training, the training for completing the CCCP is provided to all new Therapists upon hire and additional on-going training is provided throughout the year. Great care is given in emphasizing the importance of having clear and specific goals for our clients. Goals are always SMART (specific, measurable/quantifiable, attainable with a year, realistic and time-bound). Therapists are trained and expected to: 1) Complete the CCCP within the client's first month of treatment; 2) Submit the CCCP to the Clinical Supervisor for review to assure the specificity of the goals as well as their relationship to the diagnosis.

2. **CASH/REVENUE:** Ensure that there is segregation of duties over cash handling procedures. **Response:** As clarification, our Office Manager (OM) opens all agency mail in our President/CEO's presence. All checks received are endorsed by the OM and given to Accounting for deposit. Currently, the person preparing the deposit is not the same person making the bank run. The person making the bank run is not the same one reconciling the bank statement.

Ms. Wendy L. Watanabe
Auditor-Controller
County of Los Angeles

March 17, 2010
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3. CASH/REVENUE: Ensure that the preparer and reviewer sign and date the bank reconciliations. Response: Though all bank accounts are reconciled in a timely fashion, we currently ensure that the reconciliations are printed, signed, and dated by both the preparer and reviewer.
4. EXPENDITURES: Revise FY 08/09 Cost Report to reduce reported program expenditures by \$5,129 and repay DMH for any excess amounts received. Response: Will contact DMH for instructions related to filing a revised cost report. Pacific Lodge agrees to file a revised cost report for FY 08/09.
5. EXPENDITURES: Ensure that only allowable program expenditure are charged to the DMH program. Response: Identified, unallowable expenses are charged to a specific project number and segregated from allowable expenses.

Again, we thank your staff for their professionalism and support during the review.

Regards,



Lisa Alegria
President/CEO
818.657.3104